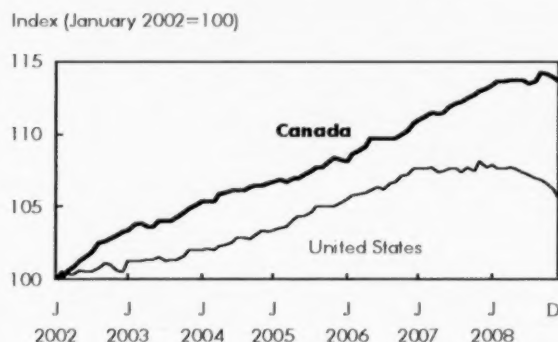


The recent labour market in Canada and the United States

Vincent Ferrao

Canadians are well aware of the economic turmoil caused by the collapse of the housing market in the United States and the subsequent problems in financial markets. Not surprisingly, the labour market has been hit hard, with U.S. job losses numbering in the millions over the past year. Given the level of trade across our border, some impact was to be expected in Canada. Yet differences in the structure of the two economies will affect both the severity and the timing of the downturn. This article uses Canadian numbers adjusted to U.S. definitions to exam-

Chart A Employment growth in Canada surpassed the pace in the U.S. between 2002 and 2008



Note: Canadian data adjusted to United States definitions.
Sources: Statistics Canada, Labour Force Survey; U.S. Bureau of Labor Statistics, Current Population Survey.

Canadian data, U.S. definitions

This article compares total employment and unemployment, employment and participation rates from the Labour Force Survey (LFS) in Canada and the Current Population Survey (CPS) in the United States. Both surveys follow similar questionnaire design and wording. The Canadian data have been adjusted to approximate definitions used by the CPS:

Adjustment for employment

- Remove 15-year-olds because they are not surveyed in the CPS.

Adjustments for unemployment

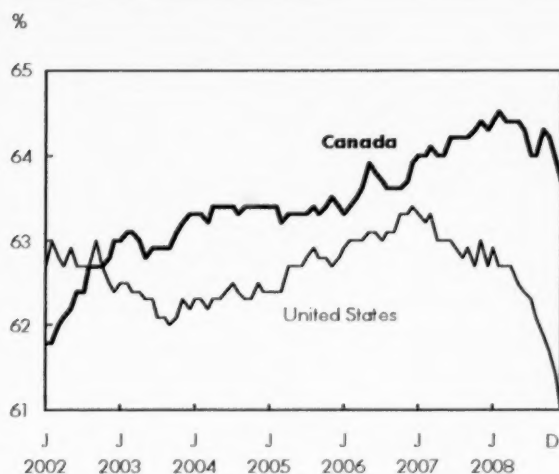
- Remove 15-year-olds.
- Remove people who looked for work only by using job ads. The U.S. does not include such 'passive job-searchers' among the unemployed.
- Remove people who did not look for work, but who had a job to start in the next four weeks. In Canada, these 'future starts' are counted as unemployed.
- Remove those unavailable to take a job because of personal or family responsibilities. In Canada, they are considered among the unemployed; in the U.S., no such exception is made.
- Add full-time students looking for full-time work. In Canada, they are not included among the unemployed; in the U.S., they are included.

In any given month, these adjustments normally shave almost one full percentage point from the Canadian unemployment rate.

The data for total employment, unemployment rate, employment rate and participation rate are monthly seasonally adjusted estimates.

For industry employment, 12-month averages are used to ensure robustness in the data, because the monthly CPS figures are not seasonally adjusted.

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Chart B Since 2003, Canada's employment rate has exceeded the U.S. rate

Note: Canadian data adjusted to United States definitions.
 Sources: Statistics Canada, Labour Force Survey; U.S. Bureau of Labor Statistics, Current Population Survey.

ine how labour markets in each country have responded to the recent economic events (see *Canadian data, U.S. definitions*).

A notable feature of the labour markets in Canada and the United States in 2008 was the contrasting trends for several key indicators. In Canada, employment continued to grow until the third quarter of the year, before declining sharply in the final quarter (Chart A). Still, Canada managed a slight increase of 75,000 (0.4%) for the entire year, down sharply from 355,000 in 2007 (2.1%). In contrast, employment in the United States experienced steep losses throughout 2008, for a total drop of 2,956,000 (-2.0%), after showing little change the previous year. Furthermore, the employment rate in Canada attained a record high of 64.5% in early 2008, but by year end it had settled at 63.7% (Chart B). In the United States, the rate displayed a steady and pronounced decline since the end of 2007, closing out 2008 at 61.0%, down nearly two full percentage points since December 2007.

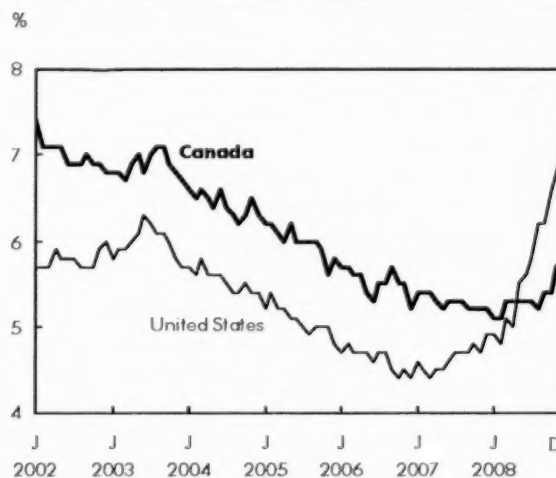
Adjusted to U.S. definitions, the unemployment rate in Canada stood at 5.2% in December 2007 before touching a three-decade low of 5.1% at the start of

2008, but ended the year at 5.8% (Chart C). Most of this increase was the result of employment losses in the final quarter of 2008. In the United States, the rate increased by more than two full points since the end of 2007, rising from 4.9% to reach 7.2% in December 2008, its highest level since 1993. In fact, the pronounced employment losses in the United States pushed their unemployment rate in 2008 above the Canadian rate for the first time since the recession of the early 1980s. Moreover, proportionately more Canadians than Americans have been participating in the labour force since January 2002 (Chart D).

The age difference

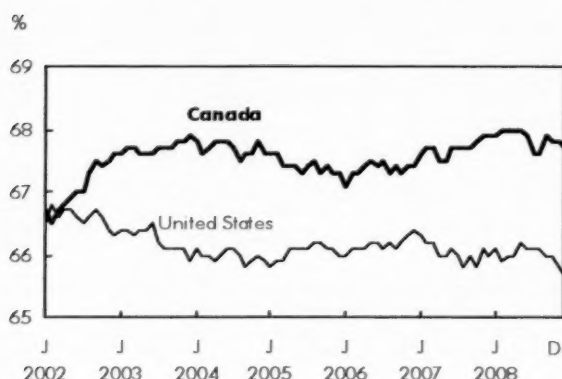
Employment losses in the United States in 2008 were especially pronounced among youth (age 16 to 24), down 985,000 (-5.0%), while in Canada the rate of decline was much less, with employment falling by 47,000 (-1.9%).

Another big difference was the situation for core-age workers (25 to 54). In Canada, this group managed to hold on to the employment increases in recent years

Chart C In 2008, the U.S. unemployment rate jumped above Canada's

Note: Canadian data adjusted to United States definitions.
 Sources: Statistics Canada, Labour Force Survey; U.S. Bureau of Labor Statistics, Current Population Survey.

Chart D Since 2003, Canada's participation rate maintained at least a one-point edge over the U.S. rate



Note: Canadian data adjusted to United States definitions.

Sources: Statistics Canada, Labour Force Survey; U.S. Bureau of Labor Statistics, Current Population Survey.

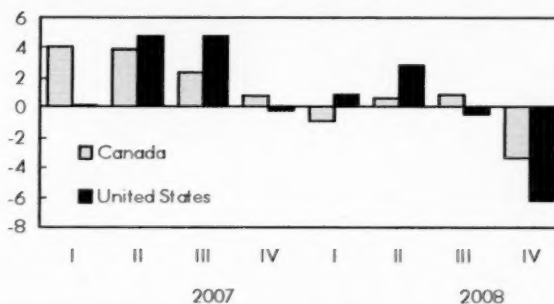
and even managed to nudge up by 22,000 (0.2%) in 2008. This contrasts with the situation in the United States, where the number of core-age workers fell by 2.9% in 2008 (-2,868,000).

The number of older workers (age 55 and over) continued to grow in both countries in 2008, up 101,000 (3.9%) in Canada and 878,000 (3.3%) in the United States. While the population is aging in both countries, the increase in employment is much faster than the population increase for the age group, reflecting their increased participation in both labour markets.

The Canadian labour market was not as adversely affected in 2008 as the American labour market. The two economies experienced some marked differences in performance at different times of the year. In Canada, economic activity declined by an annualized rate of 0.9% in the first quarter, but subsequently rose by 0.6% in the second and by 0.9% in the third quarter (Chart E). In the fourth quarter, however, gross domestic product (GDP) contracted at an annualized rate of 3.4%. In the United States, on the other hand, eco-

Chart E Real GDP quarterly growth rates contracted steeply in both countries toward the end of 2008

Annualized change from previous quarter (%)



Sources: Statistics Canada, Canadian Economic Accounts, chained 2002 dollars; U.S. Bureau of Economic Accounts, chained 2000 dollars.

nomics activity increased by 0.9% and 2.8% in the first and second quarters, but fell 0.5% in the third, and preliminary GDP estimates indicate that the U.S. economy contracted by 6.2% in the final quarter. In fact, toward the end of 2008 the National Bureau of Economic Research announced that peak economic activity in the United States had been reached in December 2007 and that the economy had subsequently fallen into recession at the start of 2008, just when employment began its steep decline.

Strength in western Canada, woes in U.S. housing and financial sectors

The labour market in Canada, especially in the western provinces, has experienced the effects of a natural resources boom for several years, with rising commodity, oil and natural gas prices. Labour shortages have been especially acute in the West, where pay rates have risen the fastest in the country. In the latter half of 2008, however, commodity prices, including world oil prices, began to tumble.

Table Change in employment, selected industries, 12-month averages

	United States			Canada		
	2007	2008	Change	2007	2008	Change
	'000		%	'000		%
Construction	11,860	10,970	-7.4	1,130	1,230	8.6
Financial activities	10,490	10,230	-2.5	1,060	1,070	1.3
Manufacturing	16,300	15,900	-2.4	2,040	1,970	-3.7
Wholesale and retail trade	20,940	20,590	-1.7	2,660	2,650	-0.1
Education and health care services	30,660	31,400	2.4	3,030	3,090	2.2
Public administration	6,750	6,760	0.3	860	930	7.1
Mining, oil and gas extraction	740	820	11.3	250	260	3.7

Sources: Statistics Canada, Labour Force Survey; U.S. Bureau of Labor Statistics, Current Population Survey.

The United States, amid the turmoil in its mortgage market and financial sector, experienced pronounced employment losses, first in construction and financial activities, then with declines spreading to several other sectors, including retail (Table). In fact, few industries in the United States added employment recently, the exceptions being education, health care services, and mining, oil and gas extraction.

A sour note in both countries was employment losses in manufacturing that began earlier in the decade. Canada and the United States, as well as other higher-cost countries, have been affected by global competition from countries with low production costs. Until recently, the soaring value of the Canadian dollar against its American counterpart posed an additional challenge to Canadian manufacturers. Employment losses have been pronounced in the manufacturing heartland of Quebec and Ontario.

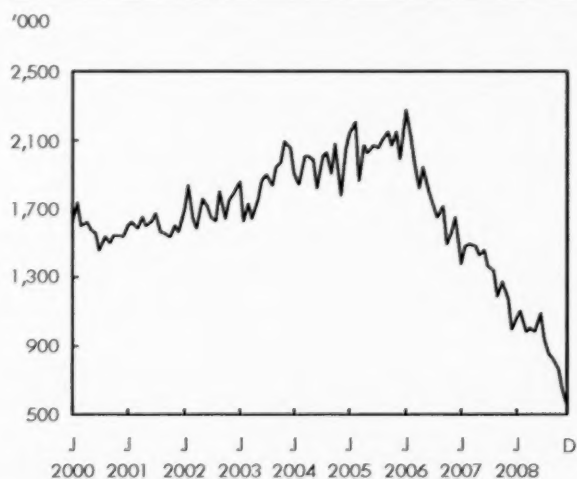
In addition to manufacturing, the Canadian forestry sector has also trimmed its payrolls in recent years. This sector has had to endure several challenges, including trade disputes with the United States, an appreciating currency and the recent collapse of the U.S. house-building market (Chart F). These have been counterbalanced somewhat by strength in the domestic market, with construction activity in Canada soaring in recent years from the boost provided

by low interest rates. However, residential construction in Canada began to drop off at the end of 2008 (Chart G).

Non-residential construction has been spurred by mega-projects such as the tar sands in Alberta and preparations for the 2010 Olympic Games in British Columbia. Population growth in Alberta has also been a major contributor to the employment increase in construction.

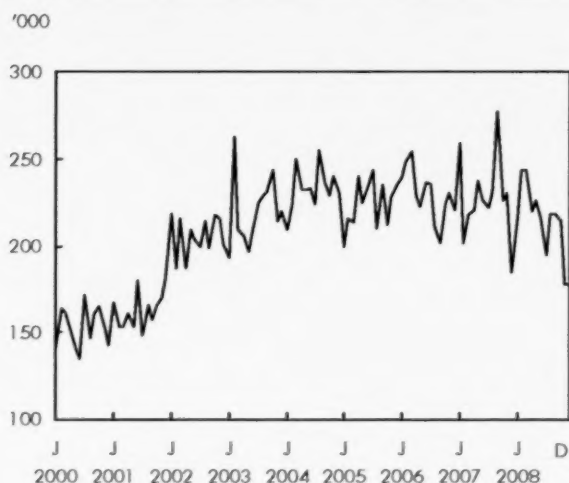
Conclusion

For most of 2008, employment in Canada continued to grow, albeit at a slower pace than the previous year. However, losses were evident in the final quarter of the year. In the United States, employment showed pronounced monthly declines throughout 2008. In fact,

Chart F U.S. housing starts dropped by two-thirds between 2006 and 2008

Source: U.S. Census Bureau, seasonally adjusted at annual rates.

Chart G In 2008, Canadian housing starts remained above their 2000 level, despite declines late in the year



Source: Canada Mortgage and Housing Corporation, housing starts, all areas, seasonally adjusted at annual rates.

other major labour market indicators such as the employment rate, the unemployment rate and the participation rate in Canada have all outperformed their American counterparts. In Canada, construction employment increased steadily in 2008, with the exception of a substantial decline at the end of the year, while finance did not experience the turmoil seen south of the border. Continued weakness was evident, however, in manufacturing employment.

Overall, in 2008 the Canadian labour market weathered the economic storm much better than the American one. All eyes are now on the 2009 labour market, on both sides of the border. Early signs at the start of 2009 were not very encouraging for either country as both experienced substantial employment losses, with the unemployment rate in Canada, adjusted to U.S. definitions, jumping to 6.7% in February 2009 from 5.8% in December 2008, while in the United States, it increased by 0.9 percentage points to 8.1%.

Perspectives